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ECONOMIC REFORM IN LATIN AMERICA

Shahid Javed Burki, World Bank Vice-President for Latin America and the Caribbean Region, discusses World Bank's programme for social development which aims to improve the living conditions for women and indigenous people, as well as fight open poverty and corruption in that part of the world. Although poverty is still widespread in the region despite economic reform and progress achieved by a number of Latin American countries, Mr. Burki is optimistic and recommends investing there. He believes that the financial crisis in Southeast Asia has limited impact on the economies of Latin American countries.

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ANNOUNCER: From United Nations Headquarters in New York, this is **World Chronicle**, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's **World Chronicle**.

LITTLEJOHNS: I'm Michael Littlejohns, and this is **World Chronicle**.

BURKI: Thank you very much.

LITTLEJOHNS: Mr. Vice-President, there seem to be conflicting imopressions about the situation in Latin America. Some Wall Street analyst seem to think that it's a good place to invest, while on the other hand, others fear the so-called 'Asian Contagion'. What's your feeling about Latin America?

BURKI: I'm very positive about Latin America. My view is that Latin America remains a very attractive place for investors to put their money in. And this, I say, despite the crisis in East Asia because my view is that the crisis -- that the set of circumstances that produced crisis in East Asia, do not necessarily exist in Latin America. The markets get very nervous, this time they're not as nervous about emerging markets as they were at the time of the Mexico crisis. They began to differentiate a bit among the countries that what we call 'emerging'. And therefore, while there have been some impact of the crisis on Latin America, Latin America remains a robust economy. And I would imagine that investors would recognize this and bring the money into....

LITTLEJOHNS: Which countries, in particular, would you recommend?

BURKI: Oh, I would recommend most of them. For ..

LITTLEJOHNS: Including Venezuela which seems to be having some problems?

BURKI: Well, Venezuela is having problems now, and that problem is because of the decline in the price of oil, but before that happened, Venezuela was doing relatively well. So I would not say that there is a single Latin American -- large Latin American country -- that the investors should be shy of.

SVARZMAN: Would you say that Latin America will not be affected in the long term by what's happening in Asia?

BURKI: No, I wouldn't say that. I'm very glad you put the word 'long term' in your question. My view is that because of the differences in circumstances between Latin America and East Asia, we would probably not see the kind of crisis in Latin America that we have seen in East Asia. However, if the East Asian crisis does not begin to work itself way out, then there will be secondary consequences. And one of those has already began to appear, which is a fairly significant fall in the price of commodities. If there is a very significant

downturn in East Asia, then we will see this translated in commodity prices. The price of copra, for instance, has gone down enormously and Chile is affected. So the secondary effect, would obviously be felt by the countries of Latin America and the Caribbean.

SVARZMAN: It's already felt because, for example, most investor service in February downgraded in the outlook for foreign exchange in Venezuela and sometimes their investment seem similar. They're worried because they have to raise interest rates and will be a major fiscal deficit so the government will have to cut down on expenses, creating more social problems and Venezuela seem to erupt very easy. And also Mexico will be affected with the oil prices. In Chile the peso is weak, in Peru the copra and silver exports also are suffering and I don't know what will happen in those countries and whatever you're pushing your sales for Brazil.

B What I see for these countries is some decline in the rate of growth and GDP. Last year, in 1997, gross domestic profit of all Latin American and Caribbean countries increased at the rate of 5.3 percent. This is the highest rate of growth in GDP for many, many years in Latin America. If East Asia crisis had not happened, we were predicting that in 1998, Latin America would grow at about the same rate -- 5.5 percent or so. Current forecast is that this rate of growth may decline by 1.5 to 2 percentage points. And that's happening precisely for the reason that the two of you have given which is commodity prices have decline and at the same time to protect their own economies from nervousness and financial markets, many of these countries have had to raise interest rates -- short term interest rates -- and increasing short term interest rates will produce short term problems and, we will probably see, as I said, a decline of about a percentage-and-a-half in the GDP growth rate.

SVARZMAN: Usually more financial companies are speaking about 3.5 growth in this year in the GDP in Latin America on the average. But some people like Mr. Gary Newman for SBC Markets said the major impact is still to come in Latin America. You are more optimist or less optimist?

BURKI: I'm more -- I don't know if optimism is the right word but I -- if there is no other major shock to the system, my guess, at this time point is that the maximum decline that would take place in the GDP growth rate in Latin America will be of the order for about 1.5 percentage points.

LITTLEJOHNS: Mr. Burki, the situation is improving so much in Latin America, why is it that poverty is so widespread among the people. In the

introduction, we mentioned that the situation for them is about the same as it was during the debt crisis of the 1980's. Why isn't the wealth, if indeed there is wealth developing, getting down to this people?

BURKI: I'd like to make one correction to what you were saying. You said that the situation is improving that much. The situation is still not improving that much. There's still a long way to go before the countries of Latin America and the Caribbean country cover what they lost during what's called the 'lost decade' of the 1980's.

LITTLEJOHNS: So when you recommend investing, you go in it at the bottom rather than at middle level, whatever.

BURKI: Well, what's happened is that these economies are not extremely well-managed -- much better managed than they ever were and, therefore, from the point of view of the investment community, there is a great deal of comfort to be obtained by the fact that you have a bunch of very good decision makers, policy makers from the biggest economy to the smallest economy in Latin America, that is a considerably important fact.

LITTLEJOHNS: But their decisions doesn't seem to be getting done to help their people.

BURKI: No, they are. What's happening is the way they have handled their economy is that structurally they're not strong. Now, you have to take the next few steps. We, developing economies, have began to recognize how important it is to have robustly to growth going before you can really begin to address the problems of poverty. You're absolutely right in saying that despite the revival of growth in Latin America, the poor remain poor and in fact, in some countries they are more poor today than they were, say, ten years ago. But what's began to happen at the same time is that the rates of growth that we were seeing in say '96, '97 gave enough fiscal space within which these countries can begin to undertake programmes that would be of direct consequence for the poor. And here, I am referring to helping indigenous people, helping women, improving education standard, providing better health care, and so forth. My view is -- and let me throw some numbers at you -- my view is that if Latin America can sustain a rate of growth of about 6 percent per annum over a ten year period, then we will see a fairly significant decline in the problems of poverty in these countries.

NGUYEN: Mr. Svarzman?

SVARZMAN: Sure. You said that -- speaking about growth and poverty -- but these are a systemic programme there because in countries such as Brazil, the

wealth and the generational wealth is concentrated in only a few families, a few sectors in the country and even if you grow 7 percent or 8 percent a year, still will be in the hands of the same families. Can the World Bank do something to promote the social development?

BURKI: That's an extremely good question and this is where Latin America lacks way behind every other region of the world ....

LITTLEJOHNS: Including Asia, because ...

BURKI: Including Asia.

LITTLEJOHNS: ... there's a problem in Asia, too.

BURKI: No, no, Latin America is much worst in this respect - income distribution. Income distribution is extremely skewed in Latin America. In Brazil, the bottom 25 percent of the population has only 2.5 percent of GDP, which is one of the lowest shares of bottom 25 percent in the population. Now, what can be done about this? What can be done about this that we improve this inconsistency so that the rich pay taxes from which government can run programmes that will benefit the poor. That's the only way of addressing the problem of poverty and income distribution. I might also add that there's a lot of evidence to show that even in revolutionary environments, income distribution is something which is very difficult to correct. It takes time. So what we put in place today, won't have an immediate effect.

NGUYEN: What is income distribution is what makes -- what produce poverty, can you also give us an idea of hard works in Latin America where the elite, the few elites that owns the industry or the economy and in Asia where the Chairbole in South Korea and the Keidanren in Japan also owns -- and they are small groups -- and they own the economy also. Can you give us an idea of how it works while in Asia that small group seems not to doing well and in Latin America they don't worry but they're not -- they don't work in similar ways.

BURKI: Their structural base economy are quite different. In East Asia there are a lot of very rich people and they are Chairboles and industrial groups and so on. And they have a lot of -- the cumulative wealth of these groups is enormous. But at the same time, East Asian income distribution is fairly good. The reason is that these countries have a very large middle class which has benefitted from the enormous increase in GDP that has occurred in these countries over the last 40 years and when you have a very large middle class in the middle of the very rich and the very poor, you have good income distribution and that's --

NGUYEN: And it reduce poverty also ...

BURKI: And it reduces poverty because the middle class consumption then creates demand for the goods that the poor can produce. Whereas, the rich, their consumption patterns are very different. They would like to, you know, buy art and collect silver and so on, and so forth, and these things don't produce what the economists call multiply and therefore, don't have any effect on poverty.

NGUYEN: Latin America and the Caribbean Region has known peace in recent years but it has not been able to really strengthen the structure for economic reforms in a peaceful time.

BURKI: No, I would say that Latin American countries have made some very, very important and significant strides in better management of their economies. The structural changes that they have introduced in their economies under what is sometimes called, wrongly, I believe but nevertheless that's the term that they use the 'Washington Consensus'. Washington Consensus has produced a set of policies which has been adopted by the countries in Latin America and resulted in relatively well-managed economies.

LITTLEJOHNS: This is World Chronicle. Our guest is Shahid Javed Burki, World Bank Vice President for Latin America and the Caribbean Region.

SVARZMAN: Mr. Burki, speaking about the Washington Consensus, I was going to hit you with that. One of the Consensus is privatization, because the state aver companies are wasteful, inefficient and sometimes prone to corruption but the privatization in Latin America, in more than one case, have been done pretty badly benefitting only a few and also the suspicion of corruption. The Washington Consensus is not -- there should be some kind of guidelines to avoid that?

BURKI: I think Washington Consensus fail to recognize a few things and this is one of them. The idea that you transfer assets from public ownership to private ownership will produce a massive change in the way the economy is managed. Walshe is somewhat naive. In my book, a private sector monopoly is worse than a public sector monopoly. A private sector monopoly can be vicious. A public sector monopoly is usually very inefficient. So if you want to make efficiency gains by transferring assets from public to private ownership, you've got to make sure that you have in place institutions that can protect the consumer against the operation of the private sector enterprises. That has began to happen. In Chile, for instance, there is now a programme being put in place in which very robust regulated practices will be put into place to be managed by equally robust

institutions. That did not happen in a number of Latin American countries when privatization was undertaken.

NGUYEN: Mr. Burki, perhaps for the benefit of some in our audience who may not be familiar with the term, would you explain what Washington Consensus is?

BURKI: Washington Consensus is the term that began to be given to a set of policies that people thought countries in situations similar to those in Latin America should adopt in order to produce sustainable rate of growth. What are these policies? Prudent fiscal management, making sure that you are not printing money beyond the capacity of the economy to absorb, prudent monetary management, a greater role for the private sector, particularly in the management of the assets which public sector cannot -- does not -- manage well, open trading systems which means lowering of tariffs in order to have competition generated within domestic ecnomies, and, finally, reasonably open financial systems.

LITTLEJOHNS: And these guidelines were prepared by the World Bank, your bank, and the International Monetary Fund?

BURKI: That's the point. They were not.

LITTLEJOHNS: So why is it called Washington Consensus?

BURKI: Washington Consensus because these institutions are located in Washington. We essentially reacted in a very positive way to an enormous amount of very positive movement that developed in these countries aimed at addressing the problems of these countries that fares for a long time. Washington Consensus, when you really look at its history, was a home-grown philosophy which was then picked up then by the World Bank, International Finance -- IMF, Inter-American Development Bank and included in the programmes that we put in place in these countries. So Washington Consensus is a term that was developed, not by anybody in any of these institutions but by an academic by the name of John Williamson, who now regrets that he used the term.

NGUYEN: But do Latin American countries furlough that Consensus at all?

BURKI: Yes they do.

NGUYEN: What about Asia, you know, with the collapse of the economies there. They are talking about westernization of the economy in Asia meaning following the furlough probably the Consensus you are talking about. What about Latin America -- is there already -- are they already on the path in that Consensus, of following, you know, Washington ideas and how to run their economy.

BURKI: The so-called Washington Consensus was picked by the East Asians a long time before. Latin America adopted it. They introduced these policies. This is part of the Asian miracle. And so, nothing of that kind needs to be done because these things are already done. What was not done in East Asia was the development of a financial system which was open, transparent, autonomous, not under the control of Chaebol, and so forth and East Asia, therefore, is paying the price for that particular development. The big change that we will see now in East Asia is not that these countries will go back on the implementation of the so-called Washington Consensus policy but will begin to reform, in a very dramatic way, their financial systems. My own view is, maybe because I am temperamentally an optimist, that East Asia will come out of this crisis, faster than many people are prepared to think at this point. Because there is inherent strength in those economies -- high savings rate, high investment rate, very good human capital, very good contact with the world outside, exports and so forth. Once they've set their financial house in order, we should begin another phase of rapid East Asian growth.

NGUYEN: You don't see Latin America going to the same road that Southeast Asia had been on...

BURKI: You mean Latino crisis?

NGUYEN: Yes.

BURKI: No, because not many people recognize that largely as a results of the Mexican peso crisis in 1994, the Latin American financial system is stronger today than the East Asian financial system.

SVARZMAN: Mr. Burki, in South America, I mean growing the free trade organization called MERCOSUR but now a lot of people have misgivings of what may happen in Brazil. You think the government would be able to defend the money -- the real -- because if Brazil goes down with it, with the devaluation, there will be a new crisis. A Mexican crisis in the south not in the north.

BURKI: I'm very optimistic about Brazil. I don't think there is any prospect of the government moving away from the real plan. The real plan has brought enormous benefits to the country. It has reduced to single digit the rate of inflation. It has had a tremendous impact on improving the income distribution. So it is extremely important that Brazil stays with that plan. And authorities have indicated, very fondly, that there is not going to be any move away from the real plan. Second, I think the Brazilians took some very brave fiscal steps right after the Asian crisis. You would recall that President Cardoso left the meeting of the

heads of government in Venezuela and went back and announced a programme that was even more robust than the markets wanted Brazil to implement at that point. And that was a major development. Yesterday the Senate passed another bill a constitution amendment bill aimed at ultimately producing fiscal reforms. So I think the Brazilians are moving in such a way that they really do not have to worry too much about the impact of this ...

LITTLEJOHNS: Mr. Burki what can you tell us about the role of your Bank, the World Bank, in Latin America and the Caribbean Region, particularly in the area of social policy?

BURKI: Oh, I can tell a great deal. How much time do I have?

LITTLEJOHNS: Well, in the last three minutes or so.

BURKI: Right. World Bank has a very large programme -- what we call human development sectors. In the next three years, we are likely to provide between 7.5 to 8 billion dollars of assistance for reform of educational and health systems and provisional nutrition programmes.

LITTLEJOHNS: Where is most of that money going?

BURKI: It's going to be all over the Region. Mexico has a very large programme, Brazil has a large programme, Argentina, even Chile has asked us for a small amount of money...

LITTLEJOHNS: Why did you say even Chile?

BURKI: Because Chile has not been borrowing a great deal from the World Bank. Chile didn't think that it needed our kind of assistance. But now Chile is interested in coming back to us for some assistance, not because they need the money but because they value the expertise that comes with that money. In the area of social development, we are focussing on two or three things -- we are focussing on women. Our view is that the plight of women in Latin America is very, very bad. And we've got to educate women, provide them with better health care, give them opportunities and so forth. We are also focussing a great deal of attention on indigenous people -- Ecuador, Peru, Bolivia, Guatemala and so forth. The third area of concern for the World Bank is open poverty and the nexus between crime, violence, income generation activities, poverty and development and we are studying these problems in order to find what are the solutions for these. And finally, we have also began now to address the problem of corruption. Our President, Mr. Wolfensohn, announced this initiative a year-and-a-half ago, and we've had a lot of response from the countries in the region to this. So that's another important aspect of our programme.

NGUYEN: We haven't heard about NAFTA in the last few years, is this still functional and is the region trying to join NAFTA also?

LITTLEJOHNS: The North American Free Trade Association.

BURKI: NAFTA is going very well, in fact it is because of NAFTA that Mexico was able to recover that quickly from the peso crisis. Why there is not a lot of countries lining up to join NAFTA is that President Clinton was not able to obtain fast track authority from the Congress. And if he does, then once again there will be a lot of interest in the region to become members of the NAFTA.

NGUYEN: Then Latin America will be okay if they really follow the policies of that Association?

BURKI: Well, Latin America now has three or four regional systems working simultaneously. You were talking about MERCOSUR then there is NAFTA, and so forth. My view is that for as long as these Associations don't become protective associations but are what is so-called 'open regional associations', then they could be brought together within the ambit of a larger hemispheric free-trade area which was the decision taken at the Miami Summit in 1994.

LITTLEJOHNS: Mr. Burki, we have only a few seconds left. What is the total budget of the World Bank?

BURKI: If by that, you mean how much we are lending to Latin America, this year we'll be lending between 6 and 6.5 billion dollars.

LITTLEJOHNS: And that goes all over the region including the Caribbean?

BURKI: Yes.

LITTLEJOHNS: Mr. Burki, that's all the time we have. Thank you for being with us on this edition of **World Chronicle.**